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THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS Implementation  
of the European Progress Microfinance Facility — 2013

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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE  
COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE  
COMMITTEE OF THE REGIONS**

**Implementation of the European Progress Microfinance Facility — 2013**

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## 1. INTRODUCTION

In 2013, the European Progress Microfinance Facility for employment and social inclusion ('Progress Microfinance') entered into the second half of its investment period. Initiated in 2010 by the European Commission ('the Commission'), Progress Microfinance will continue to offer its products to microcredit providers to allow for improved accessibility and availability of microfinance in the European Union (EU) until April 2016 at the latest.

Progress Microfinance was set up by Decision No 283/2010/EU of the European Parliament and of the Council ('the Decision') to support microfinance via a wide range of instruments, in particular, guarantees and funded instruments. In addition to EU funding of EUR 105 million, it also benefits from an additional EUR 100 million provided by the European Investment Bank.<sup>1</sup> Progress Microfinance consists of two parts: one provides microfinance intermediaries (MFIs) with guarantees, and the other provides MFIs with funded investments, such as loans and equity. Both parts are managed by the European Investment Fund (EIF).

This report will look at activities and developments in Progress Microfinance in 2013. Most of the data in this report are given as of 30 September 2013, with more up to date data used when available. As a result, most of the developments from 2013 refer to the period from 1 October 2012 to 30 September 2013. These are complemented by information from the 'study on imperfections in the area of microfinance and options how to address them through an EU financial instrument' ('the Study')<sup>2</sup> and an ongoing interim evaluation of Progress Microfinance ('the interim evaluation')<sup>3</sup> produced for the Commission.

The report's structure follows the requirements set out in the Decision, starting with information on outreach to intermediaries and final recipients. The report then looks at the social impact of Progress Microfinance and its complementarity with other EU instruments. The outlook for the future is outlined at the end of the report, including views on the successor financial instrument under the Programme for Employment and Social Innovation (EaSI),<sup>4</sup> implementation of which will begin in the second semester of 2014.

## 2. IMPLEMENTATION THROUGH MICROCREDIT PROVIDERS

Microcredit providers (i.e. public and private entities, including both banks and non-banks) play a crucial role in reaching the Progress Microfinance's goal of disbursing EUR 500 million<sup>5</sup> through 46 000 microloans to final recipients. The rise from 26 microcredit

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<sup>1</sup> For more detailed information about Progress Microfinance's funding, products and management, please refer to the 2010 annual report: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0195>.

<sup>2</sup> By Evers & Jung: <http://ec.europa.eu/social/BlobServlet?docId=12485&langId=en>.

<sup>3</sup> By Ramboll Management Consulting (ongoing).

<sup>4</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0238:0252:EN:PDF>

<sup>5</sup> Including co-investment from the private sector and re-flows; see also section 2.2 below.

providers in 2012 to 40 providers<sup>6</sup> in 2013 across 54 operations, and the increase in geographical coverage represent an important milestone towards reaching this target.

## **2.1. Contracts concluded**

### *Types of intermediaries*

As detailed below, the division of microcredit providers is balanced, with 18 non-banks and 20 banks. In addition there are two public institutions. Providers who have signed contracts since the 2012 annual report are highlighted in bold:

18 non-banks: Microstart, Crédal (BE), Jobs MFI, Mikrofond (BG), **Vækstfonden** (DK), Microfinance Ireland (IE), Créa-Sol, Adie, **Initiative France** (FR), SEFEA<sup>7</sup> (IT), Qredits (NL), Inicjatywa Mikro (PL), FAER, Patria Credit (RO), **SKB Leasing** (SI), **Fair Finance**, **Ezbob**, **GLE** (UK).

20 banks: Societé Generale Expressbank (BG), Pancretan Cooperative Bank, **Cooperative Bank of Peloponnese** (EL), **Caja Rurales Unidas**, **Colonya Caixa Pollenca**, **Laboral Kutxa** (ES), BCC Mediocrati, BCC Emilbanca, Banca Popolare di Milano, **BCC Bellegra** (IT), Cooperative Central Bank (CY), Siauliu Bankas (LT), Erste Bank (AT), FM Bank (PL), Millenium BCP, Banco Espírito Santo (PT), Banca Transilvania (RO), Sberbank banka, **Banka Koper** (SI), **OTP banka** (SK).

2 public institutions: ICREF<sup>8</sup> (ES), **Finmolise** (IT).

### *Microcredit provider activity in Member States*

In 2013, 25 new contracts were signed, including 15 with microcredit providers who had not previously received Progress Microfinance support. Five of these contracts were concluded with intermediaries from Member States where Progress Microfinance support had not been used before: Denmark, Slovakia and the United Kingdom (involving three intermediaries). In addition, two contracts in countries that are currently not covered by Progress Microfinance (Sweden and Croatia) are expected to be completed in 2014, bringing total coverage to 20 Member States.

### *Geographical distribution of Progress Microfinance on 31 March 2014*

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<sup>6</sup> For an up-to-date list of intermediaries, please see <http://ec.europa.eu/social/main.jsp?catId=983&langId=en>.

<sup>7</sup> An umbrella organisation of several microcredit providers.

<sup>8</sup> An umbrella organisation of several microcredit providers.



## 2.2. *Actions funded*

### *Guarantees*

The programme to provide guarantees was very successful in 2013, and continues to attract a lot of interest. The number of intermediaries supported by a guarantee increased from 12 in 2012 to 27 at the end of 2013. As more guarantee contracts are currently in the pipeline, it is likely that the overall guarantee budget of EUR 23.8 million (less the fees taken by the EIF) provided by the EU will be fully used by the end of 2014.

### *Funded instruments*

A number of different funded instruments are available<sup>9</sup>, but only senior loans were used in 2013. In total, nine senior loans were made to existing or new intermediaries. This type of instrument is by far the most popular among intermediaries, as it is less complex than other instruments. Given the investment period required for equity investments, the EIF ceased to offer this particular funded instrument from April 2014. However, the new EaSI programme (see section 5) has a specific objective of building up the institutional capacity of microcredit providers. Equity type investments under this programme will play a significant role in achieving this goal.

### *Overview of Progress Microfinance operations as of 31 December 2013*

The table below shows that some intermediaries receive both a guarantee and a loan. It should be noted, however, that these two instruments always cover different portfolios, i.e. a Progress Microfinance guarantee cannot be used to cover microloans financed from a Progress Microfinance loan. The table also shows that some intermediaries have been able to receive

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<sup>9</sup> For more detailed information about Progress Microfinance's products please refer to the 2010 annual report.

the same type of support multiple times. This could have been because they managed to disburse a sufficient number of microloans to enable them to apply for new support (e.g. Microstart) or because the same instrument has been used to provide microloans to clients with different characteristics and therefore the same instrument covers different portfolios (e.g. the second and the third guarantees for FM Bank). Loan commitments to FAER and Inicjatywa Mikro were increased as a result of successful Progress Microfinance implementation. Adie also received a large loan, in addition to the guarantee agreement it signed at the end of 2012.

**Table 1: Progress Microfinance operations as of 31 December 2013**

(New operations are shown in bold)

<b>Member State</b>	<b>Intermediary</b>	<b>Instrument</b>	<b>Support to intermediary (EUR)</b>
BE	<b>Microstart</b>	Guarantee	100 000
		<b>Guarantee</b>	200 000
BE	Crédal Société Coopérative	Guarantee	300 000
BG	<b>JOBS MFI</b>	Senior Loan	6 000 000
		<b>Guarantee</b>	200 000
BG	Mikrofond	Senior Loan	3 000 000
BG	Société Generale Expressbank	Senior Loan	8 500 000
DK	<b>Vækstfonden</b>	<b>Guarantee</b>	200 000
IE	Microfinance Ireland	Guarantee	1 400 000
	(First Step)	Guarantee	100 000
EL	Pancretan Cooperative Bank	Guarantee	900 000
EL	<b>Cooperative Bank of Peloponnese</b>	<b>Senior Loan</b>	4 000 000
ES	ICREF	Senior Loan	4 000 000
ES	<b>Caja Rurales Unidas</b>	<b>Senior Loan</b>	8 000 000
ES	<b>Colonya Caixa Pollenca</b>	<b>Guarantee</b>	300 000

ES	<b>Laboral Kutxa</b>	<b>Guarantee</b>	800 000
FR	Créa-Sol	Senior Loan	1 000 000
		Senior Loan	1 000 000
FR	<b>Adie</b>	Guarantee	2 300 000
		<b>Senior Loan</b>	5 000 000
FR	<b>Initiative France</b>	<b>Guarantee</b>	500 000
IT	SEFEA	Senior Loan	2 000 000
IT	BCC Mediocrati	Senior Loan	3 000 000
IT	BCC Emilbanca	Senior Loan	2 000 000
IT	Banca Popolare di Milano	Risk-sharing Loan	4 000 000
IT	<b>BCC Bellegra</b>	<b>Senior Loan</b>	1 300 000
IT	<b>Finmolise</b>	<b>Senior Loan</b>	1 000 000
CY	Cooperative Central Bank	Senior Loan	4 000 000
LT	Siauliu Bankas	Senior Loan	5 000 000
NL	Qredits	Guarantee	1 300 000
		Guarantee	1 700 000
AT	Erste Bank	Guarantee	500 000
PL	<b>Inicjatywa Mikro</b>	Senior Loan	3 900 000
		<b>Senior Loan</b>	3 200 000
PL	<b>FM Bank</b>	Guarantee	800 000
		<b>Guarantee</b>	1 300 000
		<b>Guarantee</b>	900 000
PT	<b>Millenium bcp</b>	Guarantee	300 000
		<b>Guarantee</b>	500 000
PT	<b>Banco Espírito Santo</b>	<b>Senior Loan</b>	8 800 000



RO	<b>FAER</b>	Senior Loan	1 000 000
		<b>Senior Loan</b>	1 000 000
RO	Patria Credit	Guarantee	1 000 000
		Senior Loan	8 000 000
RO	<b>Banca Transilvania</b>	Senior Loan	7 500 000
		<b>Guarantee</b>	1 700 000
SI	Sberbank banka	Subordinated Loan	8 800 000
SI	<b>Banka Koper</b>	<b>Guarantee</b>	600 000
SI	<b>SKB Leasing</b>	<b>Senior Loan</b>	9 000 000
SK	<b>OTP banka</b>	<b>Guarantee</b>	1 300 000
UK	<b>Fair Finance</b>	<b>Guarantee</b>	200 000
UK	<b>EZBOB</b>	<b>Guarantee</b>	400 000
UK	<b>GLE</b>	<b>Guarantee</b>	900 000
<b>18 MS</b>	<b>40 microcredit providers</b>	<b>54 contracts</b>	134 700 000*

\* For loan contracts, the EIB contribution is included

### *Financial volumes*

The total commitment to microcredit providers amounts to EUR 134.7 million (including guarantees, where the total cap amount is EUR 20.7 million), and the total disbursement of funded instruments is EUR 60.17 million. This is due to the fact that a disbursement does not happen immediately after the signature of a contract and can be split into multiple instalments, pending the fulfilment of contract conditions. In general, non-banks have been faster in requesting disbursements than banks.

For guarantees, the situation is different, partially owing to the nature of this product. Guarantees are not disbursed like funded investments. They may be called in the event of a default, and they only cover part of a microcredit provider's portfolio. For reasons similar to last year,<sup>10</sup> the net amount of called guarantees is relatively low, at EUR 1.34 million, with FM Bank and Qredits having called almost 90% of this amount. The net amount of called guarantees is expected to increase significantly over time. As of the end of March 2014, this had increased to EUR 2.11 million.

<sup>10</sup> Please see the 2012 annual report: <http://ec.europa.eu/social/BlobServlet?docId=10430&langId=en>.

### *Leverage achieved*

Leverage explains how the goal of EUR 500 million in microloans can be achieved with initial EU funding of EUR 100 million.<sup>11</sup> A leverage of approximately two has been reached, thanks to EIB co-investment, and this is further multiplied by the leverage created at microcredit provider level. The highest leverage is provided by guarantees. The other most used instrument is the senior loan. For this particular type of funding, it is difficult to leverage the original funding, as sometimes the intermediary simply on-lends the amount provided by Progress Microfinance. However, even in case of a senior loan, a leverage of 1.5 or 2 has been requested from some intermediaries and, exceptionally, the leverage has been set as high as 5. According to the latest EIF projections, Progress Microfinance will achieve the target leverage of 5, in spite of the prevalence of senior loans among the funded instruments. This is mainly due to the higher-than-forecasted leverage of guarantee agreements.

### **2.3. *Applications funded and rejected***

Several applicants did not manage to complete the application procedure and receive Commission approval (for guarantees) for Progress Microfinance. However, as in previous years, formal rejection is unlikely to take place at EIF board level, where only thoroughly screened applications are submitted. The interim evaluation will analyse in more detail why certain applications were not completed.

## **3. IMPLEMENTATION AT MICROBORROWER LEVEL**

The latest projections indicate that more than 20 000 final recipients received microloans totalling EUR 182 million by 31 March 2014. This represents a strong increase, but there is still a significant market gap to be filled. The Study estimates the total unmet interest at final recipient level in Europe to be EUR 2.7 billion.

### **3.1. *Microloan volumes and the number of final recipients***

At the reporting date, there were 12 690 final recipients, with some of these benefiting from more than one microloan. More precisely, 5 942 clients benefited from 6 236 microloans, worth EUR 51.6 million, on-lent by microcredit providers, thanks to funded instruments. Guarantees enabled intermediaries to offer 7 016 microloans, totalling EUR 69.3 million, to 6 748 microborrowers.

However, not every interested entrepreneur is successful in their application for a microloan. Using a proxy rejection rate, it is estimated that almost 2 000 applications for loans supported by funded instruments were rejected.

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<sup>11</sup> In total, EUR 104.2 million has been allocated to Progress Microfinance, including EUR 3 million from a European Parliamentary Preparatory Action which was allocated in 2010.

### **3.2. Social and employment impact of Progress Microfinance**

It is clear from Progress Microfinance's objectives, as set out in the Decision, that outreach to disadvantaged groups will be key.

#### *3.2.1. Outreach to disadvantaged groups*

Data on Progress Microfinance's social impact are collected at microborrower level and submitted to the Commission annually. According to the interim evaluation, the need to report these values does not impose a significant burden on microcredit providers. It may be more of a challenge to those whose systems still heavily rely on paper. Complying with the social reporting requirement could, therefore, have a positive effect on a microcredit provider's overall administration. The data presented below do not take into account all final recipients, however, as these data are not available for all of them.

#### *Job creation via self-employment and start-ups*

Entrepreneurship is often seen as a viable alternative to wage-earning and can be a powerful tool to fight unemployment. Difficulties in accessing finance represent one of the main barriers for aspiring entrepreneurs; this was one of the main ideas behind creating Progress Microfinance. The social reports from 2013 confirm that, with sufficient funding, entrepreneurship can flourish and can help disadvantaged groups find a way out of unemployment. 60% of the individuals for whom data are available were either unemployed or inactive at the time of their microloan application, which is significantly higher than the 32% reported in 2012. As microborrowers benefiting from Progress Microfinance are often unable to access other forms of funding, it is likely that they would have remained unemployed without a Progress Microfinance-sponsored microloan. Around 38% of recorded recipients were employed, almost 2% did not answer and the rest were studying.

#### *Women entrepreneurs*

More than 36% of recorded entrepreneurs are women, slightly less than the 39% reported last year. Three out of the nineteen providers who had provided data by the reporting date reported a higher proportion of loans going to women than to men this year. These providers are the two Portuguese banks, Millenium bcp (50.03%) and Banco Espírito Santo (58%), and Lithuania's Siauliu Bankas (67%). Nine other providers also show good outreach to female clients, who represent around 40% of their portfolios.

#### *Youth and senior entrepreneurship*

Although the majority of loan takers are in the main age group of 25-54 year-olds (84.4%), the data collected show that Progress Microfinance continues to work with a significant group of final recipients aged under 25, with 5.9% of recipients in this age group (compared to 5.2% last year). The interim evaluation will contain a more precise age break-down.

### *Supporting minorities*

Information on minority support remains limited, due to either legal restrictions or the sensitivity of the issue. More information is expected to be collected as part of the interim evaluation, which will use individual interviews in addition to questionnaires. We do know, however, that some intermediaries have significant outreach to Roma communities, e.g. Adie in France and Mikrofond in Bulgaria.

### *Educational background*

Microborrowers who make use of microloans have varied educational backgrounds, including those with no formal education through to university-educated entrepreneurs. The largest amount of work on outreach to those with primary or no formal education was done by the two French providers. BCC Mediocreati and Millennium bcp, however, have the highest proportion of recipients with a post-secondary or university education. The largest group of entrepreneurs, 42.89% according to the available data, have completed secondary education.

### *Sustainable impact*

A lower number of called guarantees reported suggests that final recipients are better able to repay their microloans. This suggests that either they have continued their business activities or they have started a wage-earning activity. A survey conducted among microborrowers conducted as part of the interim evaluation will provide additional information on the current status of final recipients.

#### *3.2.2. Small amounts making a big impact*

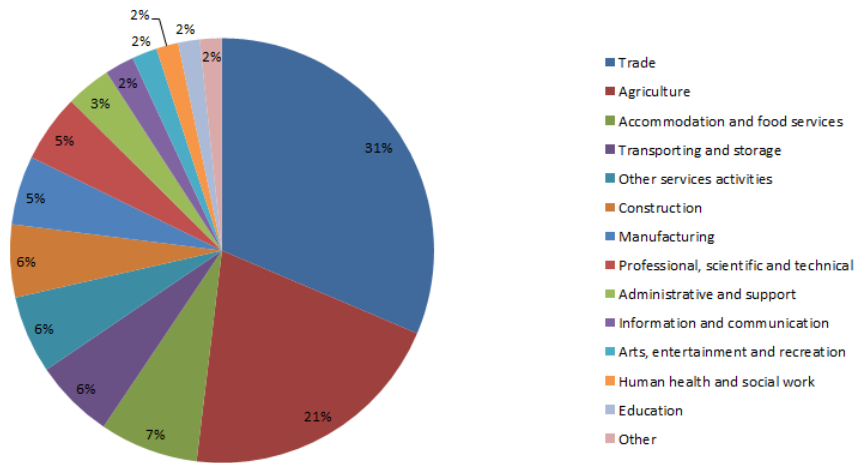
Microloans are, by definition, capped at EUR 25 000. The interim evaluation found that one intermediary thinks this ceiling is too low. Nevertheless this limit, in line with experience from previous years, is seldom reached.

30% of microloans backed by guarantees are below EUR 5 000 and 40% are between EUR 5 000 and 10 000. It is difficult to identify a clear pattern in their size. For example, a non-bank MFI from Western Europe may provide some of the smallest microloans (e.g. Microstart) as well as the biggest ones (e.g. Qredits). The situation is very similar for microloans provided through funded instruments. 70% of these are below EUR 10 000, with 51.3% below EUR 5 000.

### **3.3. Sector and regional distribution of supported entrepreneurs and microenterprises**

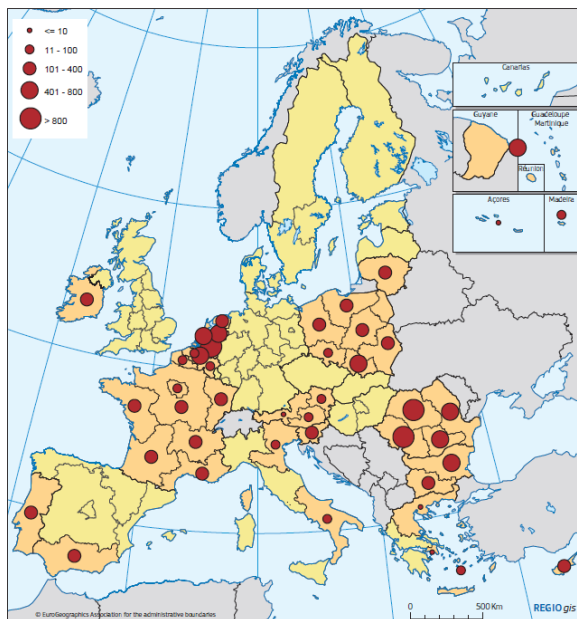
#### *Sector distribution of financed microenterprises*

Sector distribution remains broadly similar to 2012, with more than half of final recipients coming from trade (which saw a 3% increase since last year) and agriculture (down by 7%).



### *Regional distribution of financed microenterprises*

The map below indicates the number of recipients by NUTS1 regions as of 30 September 2013, and demonstrates Progress Microfinance’s good geographical coverage. Some countries with microcredit providers who have signed a contract under Progress Microfinance may not yet show any recipients, as it usually takes some time between the contract being signed and the actual provision of microloans by an intermediary.



## **4. COMPLEMENTARITY AND COORDINATION WITH OTHER EUROPEAN UNION INSTRUMENTS**

To better reach out to final recipients and further develop the microfinance market in the EU, Progress Microfinance aims to create added value by ensuring efficient coordination and smart complementarity with other EU instruments.

All microcredit providers are required to work with entities providing training and mentoring services, particularly those supported by the European Social Fund (ESF). According to the interim evaluation's preliminary results, around 50 % of microcredit providers have done this. The Commission understands the importance of business development services for self-employed people and microenterprises, particularly those coming from disadvantaged groups. As a result, it continues to demand that the EIF enforce this key requirement.

Progress Microfinance alone is not able to fully address the market gap identified by the Study. The Commission is encouraging Member States to be more active in offering national schemes for microfinance financial instruments, particularly by using their ESF resources. The new EaSI programme will help close the gap. The programme has three axes: Progress; EURES; and Microfinance and Social Entrepreneurship. Under the third axis, a budget of at least EUR 86 million will be allocated to microfinance, building on Progress Microfinance activities and adding new ones, such as activities relating to capacity-building. In addition to this budget, repayments from Progress Microfinance will be used for additional support under the third axis of EaSI. These repayments are expected as of 2018, from the Commission's portion of the overall funded instruments budget.

The Commission's technical assistance for microcredit providers, the Joint Action to Support Microfinance Institutions in Europe (JASMINE), played an important role in developing the market between its launch in 2008 and the end of 2013. Given the initiative's positive impact on the sector and its complementarity with Progress Microfinance, and in line with stakeholder requests for further integration of the Commission's microfinance activities, in the future the Commission will fund this kind of activity under the Progress axis of EaSI. The Commission intends to expand its activities and adapt them to help address existing market gaps (e.g. legal advice, tailor-made training).

## **5. CONCLUSIONS AND OUTLOOK**

In 2013, the expectation was confirmed that, following a slow initial take up, there would be a steady rise in providing microloans to final recipients. The Study confirmed the need to broaden the geographical coverage of microloans, and showed significant unmet demand for microloans throughout the EU. This has been addressed by extending Progress Microfinance activities into three new Member States in 2013 (Denmark, Slovakia and the UK) with two more to come in 2014 (Sweden and Croatia).

Guarantees have proved to be an extremely successful instrument for microfinance support, with their budget expected to be fully used by the end of 2014. When issuing new financial instruments under EaSI 2014-20, the provision of guarantees to microfinance intermediaries will be prioritised.

Social reporting confirms that Progress Microfinance has increased its outreach activity with regard to disadvantaged groups, and has had a strong impact on job creation by facilitating access to finance for the unemployed and for economically inactive people.

In 2014, activity in the third axis of EaSI will begin. Lessons learned from Progress Microfinance have fed into the design of the financial instruments in this axis of the

programme and in deciding to give increased attention to capacity-building for microcredit providers. More technical assistance will also be offered under the first axis of EaSI.

Progress Microfinance will continue to offer its products until 2016, as planned, to keep addressing the financing gap on the EU microfinance market. After Progress Microfinance ends, the balance due to the EU will be used for microfinance and social enterprise support under EaSI.